Bank of England turns gloomy again and tightens money policy to depress demand

Last year the Bank slashed its forecasts for growth for the year after the Brexit vote and then had to push them up again. Growth accelerated in the six months after the vote against their expectations of a sharp fall. Today the Bank has decided to cut its growth forecasts a little from the upward revisions it made to 2017 at the same time.

The Bank made an important policy statement. What it has decided to do is to tighten monetary conditions despite its own view of sluggish growth. Indeed, it maybe because it is tightening money that it has to cut its forecasts. The tightening occurs in two stated ways. The Financial Policy Committee is reining in both mortgage loans and car loans, whilst issuing general warnings against more consumer debt. This reinforces the contractionary policies being pursued by the Treasury with its big tax hit to Buy to let and dearer properties through higher Stamp Duties made in the April 2016 budget, and its decision to cut back the number of dearer cars sold on the new car market through much higher VED on dearer vehicles. The Bank has also confirmed the end to its Term Lending Facility for commercial banks in February which will soon start to affect their behaviour, reining in credit.

The Bank has confirmed that "much of the weakness in housing market activity over the last eighteen months reflects a fall in the number of buy to let property transactions following introduction of the Stamp Duty change" and confirms that new housing for sale has been growing strongly, with starts up 26% on the year to Q1 2017. Capital investment has disappointed the Bank, though the shortfall is more noticeable in the public sector.

The Bank makes a great deal of the impact of Brexit, blaming Brexit for the fall in the exchange rate. Understanding that it needs to be consistent it has to explain why the Stock market has taken such a positive view since June 24 2016. It decides to say the market has risen because earnings and profits have been good. It then tries to suggest that this is down to sterling, whereas the FTSE 250 Index with more domestic companies and activity has also done well. The FTSE 100 is up 22% since June 24th, whilst the FTSE 250 is up 24%.

The Bank takes the fall in the pound from the pre vote high. The pound reached a 5 year high of $1.71 on 11 July 2014. It fell fairly consistently for 2 years to a low of $1.42 on 16 June, rallied briefly, and then fell away to today's $1.32. Today's level is 10% higher than the post vote low which the Bank does not mention. It is difficult to see why the Bank thinks all the fall since the vote is down to Brexit, but none of the rally is down to Brexit. It also leaves them having to explain what moved the pound down so much prior to the vote and why this influence ceased on the day of the vote. Remember quite a bit of the fall occurred long before we decide to have a

vote, and then during a long period when markets were sure Remain would win. Much of the fall was about interest rate differentials at a time of rumoured or actual rate rises in the USA.

The Bank regards the rise in inflation as resulting from sterling, ignoring similar rises in inflation earlier this year in the USA, Germany and others owing to the higher oil price. UK shop prices were 0.3% lower in June 2017 than a year earlier, showing how lower sterling has been absorbed by importers and retailers.

The UK economy generated 324,000 extra jobs over the last year and now has 32 million people in work, with unemployment at 4.5%. the Bank accepts that there will be more good news on employment over the rest of the year. The Bank is being too gloomy again, but this time is tightening money so the economy may well be a bit slower as a result.